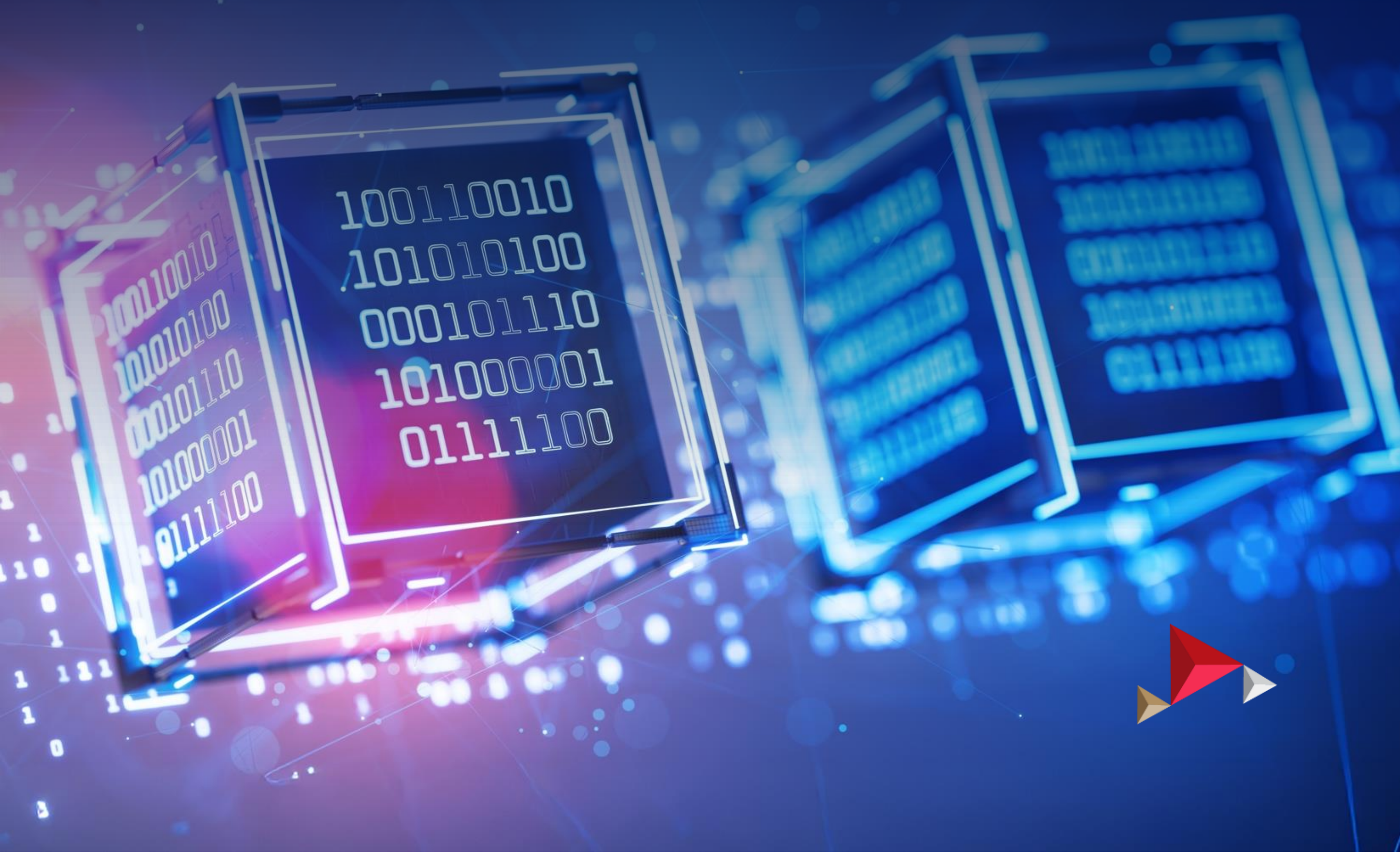
ChinaAMC(HK)

Web 3.0 Investor Education

What you need to know about tokenized fund



What is tokenization?

Tokenisation is the process of converting the ownership of assets or rights (including financial assets, physical assets, and even intangible assets) into digital tokens on a blockchain, enabling these assets to be traded or transferred in the form of tokens on the blockchain network.

What is tokenized fund?

A tokenized fund is an investment fund where ownership is represented by digital tokens on a blockchain. Each token (or a fraction thereof) represents one fund unit or share (or a fraction thereof). These tokens provide investors with digital proof of ownership in the fund.

What are the differences between traditional and tokenized funds?

Differernces		
	Traditional Fund	**Tokenized Fund**
Ownership representation	Ownership is represented by paper certificates or electronic records managed by fund administrators. Investors own units or shares of the fund.	Ownership is represented by digital tokens stored on a blockchain. Some tokenized funds may maintain the official record of ownership of tokenized Shares through off-chain register.
Transparency	Limited transparency; ownership records, transaction histories, and fund operations are managed by centralized entities and may not be easily accessible to investors.	Blockchain provides a public, immutable ledger that records all transactions and ownership details, offering real-time transparency.
Accessibility	Only available on traditional distributors' platforms for retail investors.	Additionally available on virtual asset trading platforms.
Infrastructure	Operate through centralized systems managed by banks, brokers, custodians, and registrars.	Utilizes blockchain to perform operations.

Similarity		
	Traditional Fund	**Tokenized Fund**
Fundamental assets	The fundamental assets of both tokenized fund and traditional fund are traditional securities, the existing legal and regulatory requirements governing the traditional securities markets continue to apply to tokenized fund.	

What are the potential benefits and risks of tokenized funds?

Potential benefits:

- **Expanded accessibility**

  Tokenized funds lower investment barriers, allowing for a more diverse investor base, including those from emerging markets, thereby creating a more inclusive financial ecosystem.

- **Increased efficiency**

  Blockchain technology simplifies fund management processes and reduces administrative and operational costs. Smart contracts automatically execute predefined terms and conditions, eliminating the need for intermediaries in tasks such as dividend distribution, redemption, and compliance checks. This not only reduces human error but also speeds up transaction processing, enhancing transaction efficiency.

- **Enhanced transparency**

  Blockchain technology enhances the transparency of tokenized funds. Each transaction involving tokenized shares is recorded on a distributed ledger, accessible in real-time to all network participants. This transparency allows investors to verify the authenticity and history of their holdings, thereby reducing the risk of fraud or mismanagement.

- **Potential tradability**

  Tokenized funds can be traded on virtual asset exchanges and may achieve round-the-clock 7x24 trading in the future. This enhanced liquidity allows investors to enter and exit the market more flexibly, thereby improving tradability.

Potential risks :

- **Blockchain technology risk**

  Blockchain is a new technology with potential security flaws and risks, including network forks and undiscovered technical issues. These risks can impact the operation of tokenized funds.

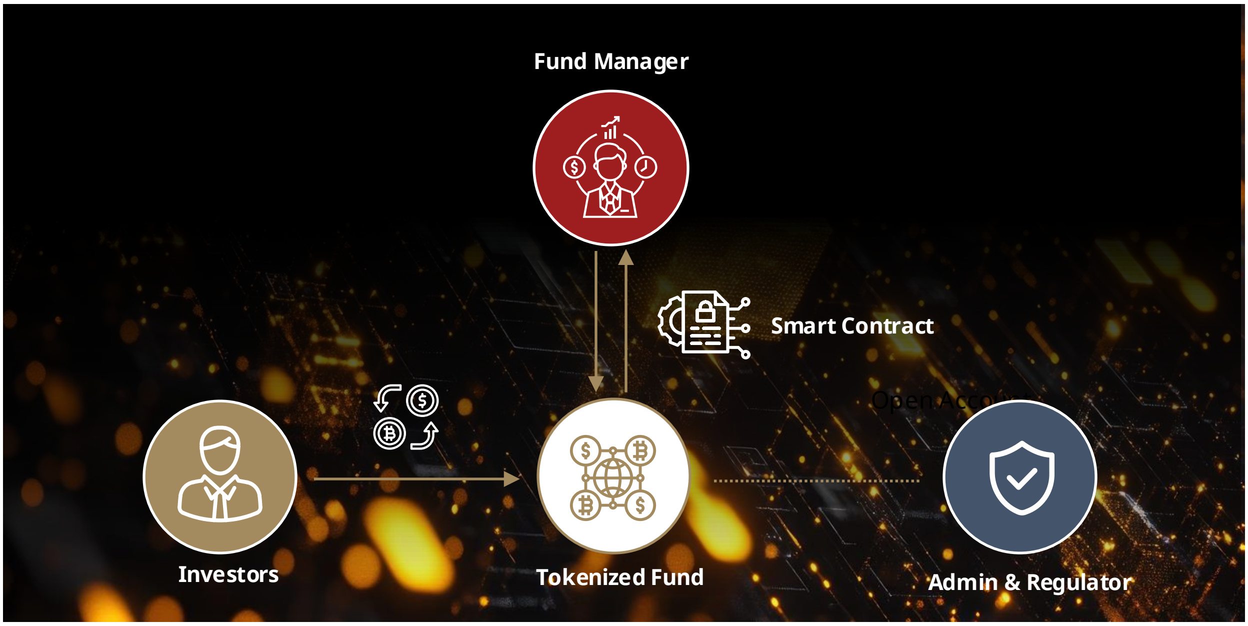
- **Digital asset security risk**

  Loss or theft of private keys can lead to unauthorized access and loss of digital assets, posing a significant risk to investors.

- **Regulatory risk**

  Regulations in various jurisdictions are evolving and may negatively impact the operation of tokenized funds, particularly in the administration and offering of tokenized shares.

How is the fund tokenized?



A fund is tokenized by deploying smart contracts on a blockchain. These smart contracts are programmed to create and manage digital tokens that represent fractional ownership of the fund. These tokens enable transparent ownership tracking on an immutable ledger, providing real-time visibility into transactions and holdings. The smart contracts automate and enforce the rules and processes of the fund's operation. Additionally, key information and essential details about the fund are published on the blockchain, ensuring transparency and accessibility for all participants.

Where is the token stored?

Tokens are stored in a "blockchain wallet." A blockchain wallet is typically a software application used to store a user's "private keys" and related digital assets, and to facilitate the transfer of assets on the blockchain.

For a tokenized fund, the fund manager may offer different wallet solutions to accommodate the needs of investors for securely holding and managing their fund tokens. These wallet solutions can vary based on the level of security, ease of use, and investor preferences. Below are some examples of wallet solutions that may be provided:

- Custodial Wallets: The fund manager or a third-party custodian provides a wallet where the private keys are managed on behalf of the investor. This solution is optimal for investors who prefer a simplified approach and not to assume the responsibility of managing their own private keys.
- Non-Custodial Wallets: Investors are provided with a wallet solution where they retain full control over their private keys. This type of wallet offers more independence and aligns with the decentralized nature of blockchain technology but requires investors to take full responsibility for safeguarding their keys.